



“How to Make Sense of the Debt Issuance Process and Your Role Within It”

CDIAC - The Fundamentals of Debt Financing

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Speakers

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Presentation Goals

- **Provide a high level, general overview**
- **Attempt to demystify the process**
 - “It ain’t rocket science”
- **Highlight key areas requiring attention**
- **Provide some insights on experiences**
- **Answer questions**
 - “No such thing as stupid question”
 - “No one was born an expert”

Financing Local Government

- **Operations and Maintenance Expenses**
 - **Financed using annual, recurring revenues**
 - **Should not exceed annual revenue collections**
 - **Maintain the use and value of capital assets**
- **Capital Expenses**
 - **New construction or major renovations**
 - **Resulting in new capital assets**
 - **Extends the useful life of existing capital assets**

Understand Agency Characteristics

- **Is the population growing?**
- **Is there room for additional development?**
- **What's the condition of the infrastructure?**
- **Are government facilities adequate to provide services (size and age)?**
- **What is current debt level?**
- **Is there multi-jurisdictional overlapping debt?**

Common Types of Bonds

- **General Obligation Bonds**
 - Require 2/3rds voter approval
- **Lease Revenue Bonds**
 - No voter approval
- **Certificates of Participation**
 - No voter approval
- **Enterprise Revenue Bonds**
 - No voter approval
- **Tax Increment Bonds**
 - No voter approval

Pay Cash or Borrow

- **Know your cash position & cash flows**
 - **Fund Balances, Reserves, Net Cash Assets**
- **Understand future financial needs**
 - **Forecast future O & M costs and capital needs**
- **Analyze useful life of capital assets**
 - **Maintain, rehabilitate or reconstruct**

Reasons to Choose Bonds

- **Asset has a long-term useful life that can be matched with bond terms**
 - 20 year useful life = 20 year bonds
- **Existing cash is leveraged by borrowing**
 - Finance larger more expensive projects
 - Cheaper than piece-meal improvements
- **Borrowing is cheaper than using cash**
 - Borrowing costs versus investment yields

Types of Issuers

- **Municipalities**
- **Counties**
- **Special Districts**
- **Joint Powers Authorities**
- **Community Facilities Districts**
- **Benefit Assessment Districts**
- **Public/Private Partnerships (Nonprofits)**

The Issuers Role

- **Understand your infrastructure and capital needs and plan debt accordingly**
- **Develop long-term analysis of debt**
- **Learn the fundamentals of bond financing**
- **Determine the need for issuing debt**
- **Assemble the financing team**
- **Determine issuance amount**
- **Determine issuance calendar**

The Issuers Role

- **Read, review and understand all documents**
- **Ask questions and stay informed**
- **Obtain governing body approval of all required legal actions**
- **Sign all issuance documents**
- **Administer debt after issuance**
- **Comply with continuing disclosure requirements**

Team Members

- **Financial Advisor or Bond Underwriter**
- **Bond Disclosure Counsel**
- **Bond Underwriter's Counsel**
- **Bond Rating Agencies**
- **Bond Insurance Agencies**
- **Trustee Bank**
- **Bond Proceeds Investment Agent**
- **Continuing Disclosure Agent**

Other Potential Team Members

- **Special Tax or Utility Rate Consultants**
- **Citizen Survey Consultants or Pollsters**
- **Public Relations Consultants**

“The more complex the issue, the greater the need for financial expertise and experience in structuring the debt.”

Procuring Financial Services

- **Look at your procurement requirements**
 - Request for Qualifications or Proposals
 - Professional Services Contracts
- **Ask your colleagues and peers for references**
 - Word of mouth and professional tips
- **Compare costs for services**
 - Cheaper isn't always better
 - Service and experience come at a price

Set Financing Team Goals

- **Establish issuance calendar (timeline)**
- **Note key dates of importance**
 - **Public hearings**
 - **Public notices (publication notices)**
 - **Adoption of Resolutions**
 - **Sell and closing dates**
- **Continuously update calendar to reflect changes in dates**

Set Financing Team Goals

- **Determine bond amounts**
 - Consider inflation in multiyear projects
 - Consider issuance costs
 - Consider capitalized interest if project will generate revenue after construction
- **Determine amortization schedule**
 - Based on useful life of project
 - Based on revenue stream projections

Set Financing Team Goals

- **Determine nature of bond sale**
 - **Competitive Sale vs. Negotiated Sale**
 - **G.O. Bonds require competitive sale**
 - **All other bonds can be sold privately using underwriter**
- **Determine interest cost targets**
 - **Based on realistic market rates**
 - **Look a similar issuance from similar issuers**

Set Financing Team Goals

- **Determine credit enhancement strategies**
 - **Bond Insurance**
 - **Reserve fund vs. surety bond**
- **Determine rating agency participation**
 - **Single or multiple ratings**
- **Determine bond proceeds investment strategies**
 - **List eligible investments (36 month horizon)**

Prepare to Enter Market

- **Secure a credit rating for the sale**
 - **Provide truthful, factual information during review**
 - **Document pertinent financial policies, practices and principles that promote solid management**
 - **Challenge misconceptions or misstatements**
- **Secure bond insurance**
- **Help bond team advertise upcoming sale**

Selling The Bonds

- **Competitive Sale**
 - Limited to acceptance or rejection of bids
- **Negotiated Sale**
 - Allows for flexibility in timing
 - Allows underwriter to pre-sell bonds
 - Allow maturities to match revenue stream

“Each has Advantages & Disadvantages”

Closing The Sale

- **Review and sign all documents as required**
 - Bond Counsel usually prepares all documents
- **Know when trustee bank will receive funds**
 - Receive notice when funds arrive
- **Issue investment instructions to trustee**
- **Record all expenses and invoices**
- **Issue expense payment instructions**
 - Simple memorandum to trustee

Debt Administration

- **Monitor investment and expenditure of bond proceeds as per plan**
- **Ensure compliance with tax requirements**
- **Continue annual disclosure requirements**
- **Promote ongoing investor relations**
- **Update budget and CAFR to reflect new bonds**
- **Make semi-annual debt payments**

Pearls of Wisdom

- **Procure the best financial advice and help**
 - Cheaper is not always better
 - Complexity requires expertise
 - Make them an extension of staff
- **Read all documents**
 - Issuer is ultimately responsible
 - Best way to learn the process
 - Make inquiries if you don't understand them

Pearls of Wisdom

- **Contract certain debt administration duties**
 - **Tax Compliance & Rebate Analysis**
 - **Continuing Disclosure**
- **Budget and report annual debt payments in city documents**
- **Work closely with Public Works or department responsible for expending funds to ensure success**

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